Cer/05/068

Irish Wind Energy Association

submission to CER on:
"Group Processing Approach for Renewable Generator Connection Applications - Connection and Pricing Provisions
Proposed direction to System Operators"
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Executive Summary

IWEA considers that there is insufficient clarity in the proposed overall Grouping Approach for us to make adequate and meaningful specific suggestions. We therefore request CER to organise a seminar involving the TSO, DSO and industry before making any further direction on the Grouping Approach.

Although Grouping is well underway, the Proposed Direction raises a series of important issues that need to be addressed. It grants excessive discretion on many issues to the System Operators, and recent experience suggests that CER needs to define the rules much more tightly. In particular the process needs:
- full contestability in both systems on all new assets;
- an additional step of max 30 days where functional design, detailed design, LCTA, cost and cash-flow are made available in good time and can be fully reviewed, and finalised before proceeding. No further charges would be permitted thereafter;
- application of non-firm access option to renewables, as this is already available to conventional generation;
- revision of application fees to remove barrier to smaller projects;
- a net cash-flow payment system (as per DNOs in UK);
- consideration of revising the Distribution connection policy to shallow charging to reduce complication, focussing process on 'Subgroups';
- greater integration between all types of connection offers to avoid discrimination and optimise generation mix and security of supply.

On broader issues, IWEA believes:
- Perverse incentives in the system imply that the connection charging policy needs to be totally overhauled, and changed to require the network to pay for assets they would own, which would reduce costs, and barriers to market entry;
- ESBNG to be required to apply full strategic Grid planning, and CER to permit recovery of consequent grid development costs.

Introduction

The CER's Proposed Direction forms the latest stage in a long and complex process of dealing with the connection of renewable generation to the electricity network. It would attempt to define certain outstanding connection and pricing provisions for all such connections going forward, including Gates 1 and 2, and subsequent gates. It is therefore a crucial document, which needs careful consideration.

IWEA broadly welcomes the fact that some of its previous concerns are reflected in the document. However, there remain issues that have the potential to compromise very many wind projects in the short term. There are also several broad questions underlying the discussion, which to date have been largely avoided or dismissed by CER, but which are becoming ever more evident and relevant.

General issues

CER has decided to establish a connection offer processing approach based on sequential Gates, rather than the parallel approach proposed by the wind industry. There are nevertheless some respects in which the process thus established could be improved. The most important general point to be made is that the degree of discretion left to the System Operators is currently too great, as we shall attempt to argue. For example, TSO and DSO are free to define the Grouping, decide which projects are transmission or distribution connected, design the network, and decide and then heavily revise the costs and timing to be offered to developers, while providing them with totally inadequate information. The fact that developers pay for network owned by those deciding these costs creates a totally perverse incentive, in what is supposed to be a fully liberalized free market. Some immediate steps must be taken by CER to minimise the impact of such anomalies, by setting tightly defined criteria for the System Operators, in particular the provision of full functional specs sufficiently early in the process (and not just with offer), a full works programme and associated fully justified cash flow, and severe constraints on variation of these after offer acceptance. We should point out that the DSO doesn't currently provide functional specs.

The lack of clarity surrounding the definition and selection of the Groups indicates an underlying problem in the concept of the Grouping Approach. It is suggested that projects in a Group share a deep reinforcement, while Subgroups share common connection network. Given that most deep reinforcements occur in the Transmission system, and these are not chargeable, while such reinforcements in the Distribution system are a minor cost element, it is our belief that the Groups are essentially redundant. We are currently reviewing the idea that CER should also immediately apply a shallow charging policy in the Distribution System as an interim measure, which could possibly limit Groups to one tier only, thereby hugely simplifying the process. In any case, we propose that the Grouping Approach focus only on grouping together projects that share network assets (currently the Subgroups), and not reinforcements.

The process now being applied makes an unwelcome separation between types of generation, and runs the risk of discrimination. In some ways, non-dispatchable generation and conventional generation, especially load-following plant, are complimentary, and might better share network capacity. Such an approach makes better utilisation of available capacity, and thereby assists optimisation of generation mix, and so increases security of supply, something we note that CER is now responsible for. The rather rigid approach adopted to date on such conventional plant as regards reserved capacity/firm access etc may need to be reviewed, and the two offer processing systems need to be more coordinated, if not fully integrated.

It is IWEA's continuing belief that arguments against contestability in the Distribution system are no longer sustainable. As shown by our previous submission on ESB Networks 'Standard Pricing', the above-mentioned anomalous incentives create a strong tendency to overprice equipment, which ultimately costs the consumer money, and makes super-profits for ESB. We note CER has recently established a review on this latter point in particular. We urge CER to recommend full contestability to the Minister as a matter requiring urgent legislative attention. Contrary to the TSO/DSO proposal, developers must have the right, if they can show full agreement, to develop shared assets in either system. In any area where this principle for some reason cannot be applied, a separate review process is required, which we will elaborate on below.

Contestability would serve as an interim measure to address such cost problems, but cannot fully resolve other sources of distortion, complication and delay. The underlying issue is that the network is owned by the utility, while the current policy requires generators to pay 100% for its development (while demand customers pay around 50%). The current hiatus only serves to highlight this underlying problem, one solved some time ago by the Danish. CER's argument that such a large upfront payment is for the protection of the consumer is, we believe, misguided, because:
- requiring the network operator/owner to build connections would naturally optimize cost;
- the network operator could use the asset for other purposes, could write it off over a much longer period, and it requires little or no return, so that the net ultimate cost to the consumer would be less;
- the removal of this 'barrier to entry' would provide additional competition in the market, also driving down the cost of power from such generators, and giving the consumer generally better value.

In our submission of October 27th last on this same subject, we stated: "IWEA feels that the clustering approach may be reasonable, but only as part of a broader strategy whereby electricity network reinforcement is strategically planned, considering both renewable and non-renewable generation, in a manner similar to the reinforcement programme underway to accommodate increased demand." Continuing with the present 'marginal approach' to grid development leads to extreme complication, as evidenced by the current protracted process. While it

appears to minimise cost, in reality it prevents the functioning of competition on the electricity system, due to the absence of spare transmission capacity[1]. We reiterate our proposition that the way to resolve these difficulties is for CER to require ESBNG to adopt a strategic approach to grid planning, and allow recovery of the consequent costs.

Specific issues

3. Guiding Criteria

IWEA would question whether the approach currently being adopted by CER meets its own Guiding Criteria, as defined in section 3 of the document. As indicated, we are not convinced that the present approach is fair, as between renewable generators on the one hand, and demand customers on the other. More specifically, we note that Section 4 of the proposed direction continues to make a distinction as regards treatment between renewable and conventional generators. The fact that the latter have been able to 'jump the queue', and may continue to do so, leaves open the likelihood that the process would be found contrary to liberalisation law.

Furthermore the 'criterion' of minimising risk to TuOS and DuOS tariffs does not equate to minimising cost or even financial risk to the final electricity consumer[2], and is thus likely to be misleading. As argued, we believe it will ultimately prove cheaper overall to the consumer for connection costs to be recovered through slightly higher TuOS and DuOS tariffs.

Whether the scheme meets the 'practical' criterion is also open to question. It has become terribly unwieldy, and yet many issues are outstanding. One practical issue is whether the agreement of Groups or subgroups is required for sections of network to proceed. We cannot imagine that the TSO or CER envisage all parties in a Group having to agree to allow the developments to proceed, and we suspect this will be restricted to subgroups. This reinforces the point already made above about deep reinforcements.

4.2 Connection Agreement Validity Period

The wind industry broadly accepts that a backstop date would be helpful for avoiding underutilisation of valuable grid capacity. We do however, foresee situations, quite likely to be outside the control of developers, especially in the current tortuous situation, where those dates may need to be open to review.

4.3 Distribution Standard Pricing Approach

[1] 'The best short-run method of supporting electricity liberalisation is to rapidly increase transmission capacity.' Newbery, 2002, p. 926; see page 6, "The Irish Energy Market - Putting the Consumer First", John Fitzgerald, ESRI, Working Paper 145, August 2002
[2] page 8 of proposed Direction

This section refers back to the DSO's proposed Standard Pricing model[3], and we have made it clear in our submission[4] that we find the absence of detailed definitions and specifications problematic, and consider the proposed costs to be very excessive. In light of that fact, and what it says about the behaviour of the DSO, which appears to be acting in the interest of the TAO (from which it should be ring-fenced), we wonder if this approach does not entail risks as regards cost in the first instance, and secondly delay as these issues are resolved.

We do not see a simple and quick methodology for contesting these matters with DSO, and hesitate to recommend standardisation where this is not the case. In any case, standardisation is too rigid, and while it may facilitate quicker offers in the short term, it does not allow for variation between projects depending on terrain etc. Developers also find that designs presented to them lack details, and that they find out what is proposed rather too late in the procedure, while they now only have 30 days to accept. For all these reasons, an additional step is required in the whole process, of no more than 30 days, where the functional design, and costs and cash-flow can be fully reviewed, optimised and finalised before proceeding.

It is still the case that the application of the costs proposed by DSO will lead to cancellation of several projects. We do not find it in any way acceptable that the System Operators (or anyone else) seeks to alter conditions after our members have bid in AER type competitions. This tends to happen each time our industry moves forward, and we look to CER to prevent such undermining of Government policy.

4.4 Generators Affected

This section introduces yet another threshold to our industry, namely 0.5MW. We gather that this is intended to facilitate technologies other than wind, and can therefore agree in principle. We however note with some dissatisfaction that it is below the size of one normal wind turbine, and at the same time that the Distribution Code set 5MW as the usual minimum size. We therefore propose that some direction needs to be included to require the DSO in particular to accommodate where possible, without grouping, small non-contiguous projects below 5MW.

The provisions of the second paragraph of section 4.4 set up a discrimination against renewable generation, and allow the TSO too much discretion on this matter. As already discussed, this is not helpful to proper generation mix and security of supply. Furthermore, the fact that the TSO is still not unbundled, and may not be for some time yet, raises the risk that its parent could at least attempt to intervene in such matters.

[3] and the TSO's equivalent, which does not appear to be in the public domain
[4] Price Review of Standard Pricing Approach for Generators, Econnect Project No: 1369 for IWEA, 9-02-05; response to cer05/004, 21-01-05

4.5 Transmission Vs Distribution Connections

This section would provide excessive discretion to the System Operators as regards deciding which projects belong on which system. Once again, there is no evident simple and quick appeal mechanism, which is now proving essential for many aspects of the process. There may indeed be another perverse incentive for the Operators to nominate projects as Distribution connected, so that they are non-contestable, and recent experience shows instances of this. There may also be an incentive to enlarge groups to try to incorporate large-scale deep reinforcements (and pass those costs to unfortunate distribution-connected projects), or even to challenge the contestability of high voltage transmission-connected shared assets that only connect low voltage subgroups.

4.6 Connection Method

The intent of this section is unclear. If it seeks to ensure that no project may fall outside the Grouping system, then it seems unreasonable as regards projects that are on their own, and are small enough not to interact with any other project. Why burden such projects with grid costs of others unnecessarily. Certain situations may call for separate treatment, for example, where the connection assets are already largely in place, where an extension is sought which uses existing capacity, for example 're-powering'.

4.7 TSO's Dynamic Simulations for Wind-farms

This section also provides excessive discretion to the TSO in particular. It introduces the risk of delayed 'deep dates' and also unquantifiable 'constraining off' of production, with no apparent recourse. Such open-ended risk is potentially fatal for transmission projects. We note also that this is essentially an application of non-firma access, and yet where such conditions are applied to conventional generation, there are time limits (usually 2 years) and compensation thereafter. Non-discrimination would suggest a similar approach here. IWEA would welcome non-firm access as an option where otherwise projects would have to wait for deep reinforcements. This would have the advantage of assuring a greater proportion of grouped projects would proceed, thus assisting the Grouping Approach.

The proposal typifies the totally non-commercial approach of this whole scheme as currently defined. The System Operators are imposing open-ended costs and timings on what are meant to be commercial projects. Banks will not finance projects with such open-ended risks. And yet there is no apparent attempt here by CER to rein in these risks, despite the obligations under the Electricity Act '99. In summary, we are faced with paying undefined and open-ended costs for assets we don't own, and subjected to open-ended timing, as well as other unquantifiable risks in what is alleged to be a commercial and liberalised market. This is not acceptable. We reject the imposition of this condition without any offsetting guarantees and time limits, since the result will be cancellation of projects.

We would remind CER of our correspondence on the subject of constraining, dated 18 and 26 May last, and we await a response. We will simply not accept the imposition of un-quantified constraining, and certainly not any constraining which is caused by the fact that the TSO is still trying to catch up on its responsibilities (which it identified itself years ago).

4.8 Connection Charging Issues

This section again raises very serious issues. The Least Cost Technically Acceptable (LCTA) principle is all very well, but from whose perspective? If it is viewed from the TSO's perspective, for example, where deep reinforcements might be required, it will have a different outcome from that viewed by the developer. We must insist that this be viewed only from the developer's perspective. In the Distribution System in the absence of contestability, there is a need to be able to challenge the DSO's view on this, and have the cost reviewed, to be sure it is in fact LCTA. Recent experience shows that the delays anticipated in such challenges leave developers with no option but to accept costs they believe are not LCTA, and timings and cash-flows that are excessive. Any such review procedure therefore must be simple and quick (max 30 days), and should be an integral part of the whole process. The right to challenge the functional design of both dedicated and shared assets, and even the grouping chosen by the Operators would be essential in that review.

Application fees are again mentioned on page 9, in the context of providing a barrier to abuse. As apparently adopted in October[5], they are a barrier, full stop. IWEA would like CER to review these for smaller projects, where they are very substantial, to the point of being a complete obstacle. They have two elements, the much larger part being for the TSO studies. However, it is the case that under the Grouping scheme, these studies will be combined, and so the cost can be shared between projects. We would suggest that CER propose sharing these costs, and in any case set a fee structure more related to project size instead.

A more useful barrier to abuse is some form of pre-qualification, as already proposed by IWEA. It should be a requirement that the wind-farm has at least planning permission. We must avoid creating an incentive for competitors to damage each others projects through abuse of the connection process.

The proposal that the probability factors in the Shared Asset cost calculations be set to zero is in itself welcome. However, the System Operators pointed out in the original grouping proposal that they believed this factor was required to avoid an endless sequence of re-calculations, caused by drop-outs. In setting this to zero, CER therefore also needs to be clear in its direction that this does not mean an endless sequence of re-calculations, and in fact means only one calculation. Otherwise, we

[5] CER Direction on Connection processes, cer04/319, 6-10-04

would have the effect of interactions, but only well after projects and Operators have invested heavily in the process. The Capacity Bond is in place to at least partly cover any such cost exposure, and the system cannot expect double cover. The existence of these factors causes the risk of over recovery from developers, without any apparent right to a refund. We would suggest to CER to remove these factors altogether.

We do not see the logic of the System Operators resistance in general to refunds. Where it is shown that cost is saved or avoided, a refund should be automatic in all cases. They do not in any way hesitate to demand extra costs, and should be seen to be consistent and not one-sided.

Under the heading, 'Distribution Payment Schedule' in Section 4.8, CER raises the possibility of a connection charges bond. This has to be completely rejected by IWEA. To raise such a bond requires either financial close or, possibly, a very large balance sheet (usually for transmission connected projects, especially conventional generators). Such a requirement would immediately eliminate all non-balance sheet projects, which is the bulk of the wind projects in the Distribution System.

IWEA welcomes CER's movement on the payment schedule, which reflects one of our major concerns. This schedule is still rather onerous, and unnecessary, since the cash profile of such projects is much more end-loaded. The principle applied by DNOs in the UK is that they should receive payment as required, and thus remain cash-flow positive. This is a principle we clearly need to apply here, and we might refer to it as a 'net cash-flow' payment schedule. The extra requirements that we propose CER apply as regards transparency of time and cost would assist the implementation of such a sensible approach.

4.9 Contestability of Connections

As already stated, IWEA continues to believe that this must be extended to all network connections and reinforcements. The costs recently proposed by ESB Networks only serve to highlight the problem, and lead us to insist that the CER and the Minister cooperate on bringing this in to the Distribution system as a matter of urgency. We must also have efficient, simple and quick mechanisms for handling this, including an appeal mechanism regarding the functional design, as already outlined. Recent experience, in particular with clusters, suggests this possibility is now essential, as the designs being insisted upon seem to be totally unrealistic and hugely expensive. Quality can be assured by the use of a list of approved contractors. Indeed, we could foresee a situation in which the functional design could be contracted out on a similar basis.

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